

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION  
SERVICE CHANGES, 2012

Docket No. N2012-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS SMITH  
TO APWU INTERROGATORIES APWU/USPS-T9-1 THROUGH 9  
(January 19, 2012)

United States Postal Service witness Marc Smith (USPS-T-9) provides responses to the above-listed interrogatories of the American Postal Workers Union, AFL-CIO, filed on December 28, 2011. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS SMITH TO APWU INTERROGATORY

**APWU/USPS-T9-1**

On page 7 of your testimony you state that maintenance and custodial labor savings were determined from FY2010 annual average salary and benefits costs.

- a) Please confirm that use of FY2010 data means that none of the cost-savings from the implementation of the APWU 2010 contract have been included in your calculations.
- b) Have you done an analysis that evaluates what the cost savings would be when compared to a baseline scenario that includes a full implementation of the labor flexibilities in the APWU 2010 contract?

**RESPONSE:**

- (a) Not confirmed. As I indicate at page 7 of my testimony, and as I show in Tables 3 and 5 of my testimony, my calculations for maintenance and custodial labor savings are done by taking the staffing savings determined by witness Bratta (USPS-T-5) and multiplying them by the FY 2010 annual salary and benefits for maintenance and custodial personnel (shown in my Attachment 2). Because I am not sufficiently familiar with the APWU 2010 contract, I am unable to say how the contract relates to FY 2010 annual salary and benefits (shown in Attachment 2). In addition, I am not able to address questions relating to the staffing savings determined by witness Bratta.
- (b) No. Please also see my response to part (a) above.

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**APWU/USPS-T9-2**

Please confirm that your estimate of \$910 million annual savings results from the use of FY2010 costs, assumes all AMPs lead to closure of the mail processing facilities, and that 93 out of 252 buildings impacted could be completely closed. If not confirmed, please explain the assumptions about AMP decisions and facility closures leading to the \$910 million annual savings.

**RESPONSE:**

Not confirmed. First, in my testimony, I do not assume that all AMPs lead to closures of the mail processing facilities. Rather, I have calculated savings for a future network based on the preliminary analysis described by witness Rosenberg (USPS-T-3). See Direct Testimony of Emily R. Rosenberg on Behalf of the United States Postal Service (USPS-T-3), at page 34. The facilities included in this future network are listed in USPS-LR-N2012-1/34. I have relied on this listing in my determination of savings in Utilities and Heating Fuel (\$74.4 million) and Custodial Supplies and Services (\$17.8 million), shown in Table 6 at page 19 of my testimony. Specifically, my first step is to identify the total expenses for the inactive sites for Utilities and Heating Fuel (\$78.3 million) and Custodial Supplies and Services (\$18.7 million) using the list of inactive facilities contained in USPS-LR-N2012-1/34 (facilities listed in LR.USPS.34.xls denoted by "N" in the column "Model Open."). Second, in determining the rents saved on leased space or potential earnings relating to vacated owned facilities (from the sale or leasing of such space) I have relied on analysis provided by Facilities. As described in my testimony, at page 20, Facilities has determined that the Postal Service would be able to fully vacate 93 of the 252 facilities it studied.

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**APWU/USPS-T9-3**

On page 20 of your testimony, you indicate that the Postal Service could only fully vacate 93 buildings of a total of 252 that are being studied.

- a) Of these 93 buildings how many are leased?
- b) Is the \$16.8 million annual lease savings calculated from current leases for those buildings? If not, please explain from where these lease savings come.
- c) How is the \$448 million in revenues determined? Is it based on current market estimates for selling those facilities?
- d) What gives rise to the \$121 million in one time capital costs in your estimate?

**RESPONSE:**

My response to this question is based on information provided to me by Facilities.

- (a) 22 of the 93 facilities are leased.
- (b) Yes.
- (c) The Postal Service obtained Broker Opinion of Value to sell as is (BOV). Yes, it is current market value.
- (d) Cost to construct new retail space and move current non mail processing operations.

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**APWU/USPS-T9-4**

Please confirm that of the \$910 million in savings that you calculate, less than 10 percent of it comes from mail processing labor and carrier workload reductions. Please clarify how those workload reductions relate to the categories of labor cost savings calculated by witness Bradley.

**RESPONSE:**

Confirmed. Mail processing labor (clerk and mail handler) and carrier workload reduction savings account for \$74.2 million of the \$910.9 million in savings that I identify in my testimony (see Table 11, on page 26).

My estimates of mail processing and delivery savings supplement those savings identified by witness Bradley (USPS-T-10). I have identified these savings due to the three types of workload reduction as indicated in my testimony, pages 21-22:

1. Elimination or reduction of outgoing secondary sorting
2. Complete elimination of CSBCS and UFSM 1000 sortation, and
3. Additional letter automated incoming secondary and DPS sorting.

The second and third types of savings would tend to occur at non-plant facilities not part of witness Bradley's work. The first type of savings was explicitly identified by witness Neri (USPS-T-4, at pages 17-18). I provide a quantification of these savings.

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**APWU/USPS-T9-5**

On page 16 you state that “to the extent that the current service standards are maintained, the Postal Service is going to need to acquire more equipment . . .” Please explain how much equipment the Postal Service would need to acquire to maintain the current service standards and under what time line that equipment would be necessary.

**RESPONSE:**

I do not have estimates of how much equipment would need to be acquired under the current service standards or proposed service standards. My statement was based on the fact that at some point our current equipment would need replacement. As discussed by witness Rosenberg (USPS-T-3), less equipment will be required to meet the proposed standards than to meet the current standards. This is most dramatically seen in DPS requirements, as discussed by witness Rosenberg (USPS-T-3, at pages 1-2). As a result, more equipment will need to be acquired for replacement purposes under the current service standards than under the proposed standards.

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**APWU/USPS-T9-6**

On page 19 you state that “there are non-processing activities at these buildings (VMF, retail, delivery, district offices), some of which can be expensive to relocate. Thus, it is a possibility we could keep even large facilities to support the remaining activities...”

- a) Which of the co-located activities would be most expensive to relocate?
- b) What factors are considered in determining if co-located activities can be relocated or must stay at the current location?
- c) Was the existence of co-located activities a factor in determining which facilities were placed on the closure review list?
- d) How were the savings and revenues (as mention on page 20) from moving other operations into the empty space in these buildings calculated?
- e) If this Mail Processing Network Rationalization effort was not constrained by limited capital; would the Postal Service change in any way its approach to decisions about whether to move co-located activities?

**RESPONSE:**

My response to this question is based on information provided to me by Facilities.

- (a) The cost of relocating vary by facility type, size, location and if potential existing space exists to move them to or construct new smaller space.
- (b) Opportunities for consolidation (is there vacant space in surrounding facilities to take in some of the non mail processing operations), distance between current location and alternative locations, and the cost of relocating.
- (c) No.
- (d) Preliminary studies based on each location’s opportunities and costs.
- (e) Capital constraint was not factored into the preliminary solutions.

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**APWU/USPS-T9-7**

On page 24 you indicate there is an opportunity to move mail currently processed in manual operations into automated or mechanized operations, and that there are opportunities for doing additional DPS.

- a) How many of the 2,072 zones not currently placed in DPS, will likely be placed in DPS under this Mail Processing Network Rationalization effort?
- b) How much mail is currently processed in manual operations?
- c) Is it only the lengthening of the operational windows that allows the additional automated operations or are there other operational changes that make that possible?

**RESPONSE:**

- (a) The savings calculation is based on doing DPS sorting for all of these zones.
- (b) Approximately 90.4 million letter pieces per year currently receive both manual incoming secondary and manual carrier casing. Approximately 687.2 million letters receive automated incoming secondary but manual carrier casing.
- (c) It is both the longer operation windows and the consolidation of processing at a smaller number of sites that allow this increase in automated sorting.



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**APWU/USPS-T9-8**

In describing the treatment of benefits costs in Appendix A, you state that the retiree health benefits obligations are based on the normal cost as shown in the USPS 2010 10-K. The USPS 2011 10-K shows that normal cost estimates have declined from \$3.1 billion in 2010 to \$2.9 billion in 2011. What steps did you take to determine how the normal costs were being calculated and that you were using accurate estimates given future staffing plans?

**RESPONSE:**

As I indicate at page 7 of my testimony, the savings estimates in my testimony are the annual savings that would occur if the processing network described by witnesses Williams, Rosenberg, Neri and Bratta had been fully implemented for handling FY 2010 volumes at FY 2010 wages and other input costs. As such, I have based my calculation of service-wide benefits savings on the FY 2010 costs, including the FY 2010 normal cost for retiree health benefits obligations.

Consideration of savings in future years would need to consider such things as rising wages and input costs as well as likely lower mail volumes, as I note on page 26 of my testimony.

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**APWU/USPS-T9-9**

You state in footnote 22 of the Appendix that setting the current cost estimate of CSRS pensions at 24.4 percent of the total salary costs of CSRS employees is the appropriate and actuarially sound annual contribution for CSRS retirement. However, the USPS 2011 10-K shows that even OPM now considers the CSRS system to be overfunded by about \$2 billion. Please clarify why this is the appropriate assumption to be used to estimate future costs.

**RESPONSE:**

Service-wide benefits reflect additional compensation (or costs related to employment) received by postal employees during FY 2010 over and above the salaries and benefits included in the cost segments and components of 1-13, 16, 18.1, and 19. One of these service-wide benefits is that related to CSRS pensions. The CSRS employer contributions required under PL 108-18 (but no longer required under current law) represent the best available estimate of CSRS pension benefits earned by Postal Service employees in FY 2010. For a more detailed discussion of this topic, see the Docket No. ACR2007, USPS-FY07-2, Supplement.